

FISCAL NOTE

SB 1261 - HB 1933

February 18, 2005

SUMMARY OF BILL: Exempts food and food ingredients from the state sales tax, effective January 1, 2006.

ESTIMATED FISCAL IMPACT:

**Decrease State Revenues - \$196,750,000 FY06
\$393,500,000 FY07**

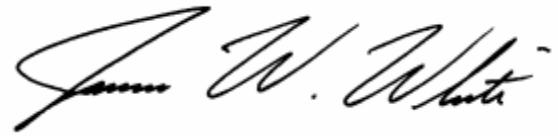
**Decrease Local Govt. Revenues - \$4,100,000 FY06
\$8,200,000 FY07**

Assumptions:

- Taxable sale of food and food ingredients in Tennessee is \$7.0 billion per year.
- Current state sales tax collections on food estimated at \$420.0 million per year at 6% tax rate (\$7.0 billion spent X 6% tax rate on food = \$420.0 million).
- Eliminating the state sales tax on food and food ingredients will initially reduce state revenues by approximately \$420.0 million.
- 90% of tax savings spent on other sales-taxable goods and services.
- \$378.0 million spent on other sales-taxable goods and services (\$420.0 million X 90% = \$378.0 million).
- Increase in state revenue derived from sales tax collections on other sales-taxable goods and services is estimated at \$26.5 million (\$378.0 million X 7% state sales tax rate = \$26.5 million).
- Net decrease in state revenues is estimated at \$393.5 million (-\$420.0 million decline + \$26.5 million gain = -\$393.5 million decline).
- Increase in local government revenues derived from local option sales tax collections (with a local option rate of 2.25%) is estimated at \$8.5 million (\$378.0 million spent X 2.25% local option sales tax rate = \$8.5 million).
- Local government revenues estimated to decrease by \$16.7 million from a reduction in state-shared taxes (4.2462% allocated to municipalities).
- Net impact to local government revenues is estimated as a decrease of \$8.2 million (-\$16.7 million decline + \$8.5 million gain = -\$8.2 million decline).
- Due to bill's January 1, 2006 effective date, there will be a half-year impact for FY06 and full-year impacts thereafter.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director